

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /128 W
-----005427 140557Z /15

P R 140405Z APR 78

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 8124

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 4829

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: PAC/INDO CONTRACTS UPDATE

1. DURING PAST WEEK CALIFORNIA UTILITY OFFICIALS HAVE BEEN IN JAKARTA FOR DISCUSSIONS WITH PERTAMINA CONCERNING PRICE ESCALATOR FORMULA IN PAC/INDO CONTRACTS. ATMOSPHERE OF DISCUSSIONS WAS COOPERATIVE AND PERTAMINA HAS BEEN FLEXIBLE IN CONSIDERING ALTERNATIVES TO EXISTING ESCALATOR.

2. GOI WANTS TWO INDEXES TO BE USED IN ESCALATOR FORMULA WITH ONE OF THEM OIL-BASED. PERTAMINA HAS AUTHORIZED PAC/INDO TO EXPLORE WITH DOE CONCEPT OF A "MODIFIED OIL-BASED INDEX" TO GOVERN 50 PERCENT OF ESCALATOR BEHAVIOR. PERTAMINA RECOGNIZES LEGITIMACY OF USG INTEREST IN PROTECTING US CONSUMERS FROM 1973-74 STYLE PRICE HIKES. CONSEQUENTLY, PERTAMINA IS WILLING TO CONSIDER AN OIL-RELATED INDEX THAT INCLUDES SOME LIMITS TO AMOUNT OF PRICE INCREASE DURING ANY SINGLE YEAR; FOR EXAMPLE, "FIXED ANNUAL PERCENTAGE", "AVERAGING FORMULAS," "BANDS," OR "LIDS WITH CARRY OVER PROVISIONS."

3. WE UNDERSTAND THAT IF THIS TYPE OF CONCEPT IS ACCEPT-
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ABLE TO USG, PERTAMINA WOULD FAVORABLY CONSIDER A BROAD-BASED ECONOMIC INDICATOR OF TYPE DESCRIBED BY DOE IN PAC/INDO DECISION AS INDEX TO GOVERN OTHER 50 PERCENT OF ESCALATOR.

4. WORKING FROM THIS APPROACH, PERTAMINA AND CALIFORNIA UTILITIES HAVE AGREED ON FOLLOWING STRATEGY WITH REGARD

TO FURTHER DISCUSSIONS ON PAC/INDO CONTRACTS:

A. PAC/INDO WILL FILE REQUEST FOR 30-DAY EXTENSION (UNTIL JUNE 1, 1978) OF REHEARING PERIOD IN ORDER HAVE TIME WORK OUT SOLUTION ACCEPTABLE TO ALL PARTIES.

B. GOI CURRENTLY INTENDS TO RAISE ISSUE DIRECTLY WITH VICE PRESIDENT MONDALE DURING HIS VISIT TO INDONESIA.

C. PAC/INDO WILL FOLLOW CLOSELY HOUSTON HEARINGS ON EL PASO LNG CONTRACTS FOR INDICATIONS OF ONGOING DEVELOPMENT OF DOE THINKING ON LNG PRICING.

D. PAC/INDO OFFICIALS PLAN HOLD MEETINGS WITH DOE ABOUT APRIL 24-25 TO EXPLORE CONCEPTS DESCRIBED PARA 2.

E. DEPENDING ON DEVELOPMENTS, FURTHER MEETINGS IN JAKARTA ARE PLANNED FOR ABOUT MAY 15, HOPEFULLY TO DEVELOP DETAILS OF ESCALATOR ALREADY ACCEPTABLE IN PRINCIPLE TO DOE.

5. COMMENT: THERE NOW APPEAR TO BE THREE ISSUES THAT COULD CAUSE CANCELLATION OF PAC/INDO CONTRACTS: (1) CONTINUED DISAGREEMENT OVER PRICE ESCALATORS, (2) SITING PROBLEMS, (3) GENERAL PROCEDURAL DELAYS. THE ESCALATOR IS THE FIRST OF THESE HURDLES, AND OUR IMPRESSION IS THE CONFIDENTIAL

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CRUNCH IS HERE ON THIS ONE. THIS ISSUE IS MORE THAN ECONOMIC. IN STATISTICAL SENSE PAC/INDO COULD PROBABLY COME UP WITH A GENERAL ECONOMIC INDICATOR THAT BASED ON HISTORY AND LOGIC WOULD BE EXPECTED TO YIELD A REVENUE STREAM SIMILAR TO THAT FORECAST FOR EXISTING ESCALATOR. HOWEVER, PERTAMINA'S ABILITY TO NEGOTIATE ON THE ESCALATOR IS CONSTRAINED BY STRONG GOI BELIEF THAT FOR INTERNATIONAL AND DOMESTIC POLITICAL REASONS THE CONTRACTS MUST MAINTAIN SOME FORMAL, ALTHOUGH NOT NECESSARILY WHOLLY DYNAMIC, RELATIONSHIP BETWEEN INDONESIA'S OIL PRICES AND INDONESIA'S LNG PRICES. OUR JUDGEMENT IS THAT THE GOI CANNOT EASILY RETREAT FROM THIS PRINCIPLE, ALTHOUGH PERTAMINA IS CLEARLY AMENABLE TO STRUCTURING AN OIL-RELATED INDEX IN WAYS THAT COULD PROTECT CONSUMERS FROM DRAMATIC PRICE HIKES. IF USG CAN ACCEPT IN PRINCIPLE SUCH MODIFIED OIL-RELATED INDEX AND USE ITS REGULATORY AUTHORITY TO INSURE SAFEGUARDS ON PRICE INCREASES, THE ESCALATOR ISSUE CAN PROBABLY BE SOLVED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONTRACTS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART04829
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780160-0438
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780458/aaaabwsd.tel
Line Count: 113
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fa50a1b0-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2970279
Secure: OPEN
Status: NATIVE
Subject: PAC/INDO CONTRACTS UPDATE
TAGS: ENRG, ID, US, PETROMINA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/fa50a1b0-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014